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Milner, John Turner

A plan suggested

Birmingham

1892

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# A PLAN

SUGGESTED BY

SENATOR JNO. T. MILNER,

OF BIRMINGHAM.

2  
FOR THE ESTABLISHMENT OF STATE BANKS

OF DISCOUNT, DEPOSIT AND ISSUE

IN ALABAMA.

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1892:  
BAINE PRINTING COMPANY.  
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NEWCASTLE, ALA., DEC. 16TH, 1892.

*Messrs Austill, Samford and Wiley, Senators, and Messers Rice, Dawson, Fergusou, Kyle and McCarron, members of the Alabama House of Representatives, composing the Joint Committee on the proper method of organizing Banks of Discount, Deposit and Issue in the State of Alabama.*

GENTLEMEN:—

Anticipating the repeal by Congress of the ten per cent tax on state bank note issues, we have been appointed a special committee under a joint resolution to frame and present a bill for the organization of state banks of deposit, discount and issue in Alabama.

Our state banks of issue went down and were destroyed as one of the results of the civil war, and it is a matter of doubt whether they could have recovered on the then existing basis even if the ten per cent tax had not been levied by the American Congress. Their assets were all gone, their stockholders absolutely and universally made bankrupt, and what is worse, every material and commercial condition in Alabama was changed. With a population less than one million under the conditions existing before the war, we made annually, and as regularly as the day follows night, from thirty to fifty millions of cotton, which was always gold on the spot, and also made on our farms our meat and breadstuffs and everything else needed or required for our support, except salt and iron. We made one third more meat to the man than did Ohio, Indiana or Illinois, and nearly as much of breadstuffs as they did per capita. All this is changed now; our smoke houses and our granaries are in

the West, and our commercial dealings there are constant and continuous. To meet the altered condition of things the currency issued in Alabama must buy grain in Chicago or meat in Cincinnati and St Louis, and be readily exchangeable with the currency of these and other great cities of our country.

The Federal government in the destruction of state banks of issue inaugurated the national bank system to furnish a paper currency for the people. It is well known, though the best system of paper currency ever devised, that these banks have failed to furnish a sufficient currency to meet the wants of our people, and as banks of issue are rapidly dying out, and as such in less than ten years will have disappeared altogether. The national government has from time to time and is continually trying to supplement this error by the issue of United States treasury notes and gold and silver certificates, amounting Dec., 1892, to \$944,050,771, or nearly nine times the amount of national bank notes now in actual circulation.

The Democratic convention of Massachusetts, which nominated Gov. Russell for re-election last fall, passed the following resolution: "Resolved, that in view of the rapid withdrawal of the national bank circulation we recommend the re-establishment of state banks of issue." New England and New York, as appears from the report of the comptroller of the currency, have monetary resources of 265 91-100 dollars per capita. Alabama has only 9 55-100. If then the re-establishment of state banks of issue is desirable in New England how much more so is it in Alabama?

The commercial and business interests of our people has changed since the war. It is now constant and continuous on account of increased facilities for travel and transportation. A man from Mobile going to St. Paul, Minn., or Seattle, Washington, cannot afford to be caught now with money that will not pass current. Our money must be national or must pass current all over the country. The national bank currency is based entirely on the faith and credit of the government. All parties in our country say now the government shall no longer be sponsor for our national bank currency. I think they are wrong, but I am only one of our sixty-five million of people. It is acknowledged any and everywhere all over our country, outside of our money centers, that there is a deficiency in our

currency circulation. The great Alliance movement is founded on this question alone. How then to increase it properly and well is the question of questions now before the American people.

Senator John Sherman, of Ohio, will soon be in favor of free coinage of silver solely with the view of increasing the currency by the issue of silver certificates on coined silver dollars, as a panacea. This is not enough and will not fill the bill. In my judgment, in Alabama, we can meet the emergency by organizing state banks of issue based on specie as is required by our constitution and on the faith and credit of our state. When we take into consideration the wreck, ruin and loss to our state by the civil war, the credit of no financial corporation, state or otherwise, in America stands higher now than does that of Alabama. The United States may disintegrate and fall to pieces, Alabama never, never through all the ages and mutations of time. A debt or obligation placed on her fifty-two thousand square miles of territory will be good against her one thousand years hence. Alabama can never be a partner in a bank under our constitution. She can and ought to perform certain legislative functions, and her bonds now or hereafter to be issued, next to national bonds, will furnish the best guarantee for a currency now known to the people of the United States. This of itself will not suffice, specie alone is the measure of values in the United States and specie must play an important part in our system.

In proposing a plan I will refer only to the matter of note issues and circulation. The deposit and discount regulations are common to all such banks now doing business in Alabama, and are well understood. Instead of an issue of three of currency to one of specie as was the law in Alabama prior to 1865. I suggest an issue of 3 of currency to one of specie and one of state or United States bonds bearing not less than 3½ per cent interest. This extra payment both of specie and bonds, principal and interest to be placed in the state treasury and to be forever under the control and management and direction of the state bank examiner, to secure the circulation and ultimate redemption of the currency to be issued. The auditor and treasurer shall act as ex-officio as an advisory board. To illustrate the working of the plan, we will take a bank to which

\$300,000 of currency is to be issued. One hundred thousand dollars in specie must be subscribed and paid into the treasury of Alabama and the same amount of state or United States bonds subscribed and placed in the treasury to be held there as security and to keep up the circulation of the notes. Upon that being done, the state examiner, whose functions, power and duties so far as applicable, shall be precisely those of the comptroller of the currency in the national banking system, shall issue a certificate to the state treasurer authorizing him to issue to said bank \$300,000 of currency properly printed and engraved to be signed by the president or other officer designated by the bank. It shall be the duty of the bank examiner to establish redemption agencies in New York, Louisville, New Orleans and elsewhere if he sees fit and to place with the redemption agencies such amounts of the specie placed in his hands to secure the taking up of each note presented in specie. In case there should not be enough of specie belonging to said bank and said bank on demand cannot promptly supply the deficiency, he shall be authorized to use first, five per cent of the specie deposit of each and every bank organized under this act. This is the system used in the state or provincial banks in Canada, and unless there is an organized run on the bank this will stop it. If however it should appear at any time to the satisfaction of the governor, attorney general, auditor and treasurer that there is an organized effort to break the bank, and from pure cussedness alone, the examiner may sell for specie the bonds and interest belonging to said bank for redemption of notes, thereafter not more than \$10,000 of said notes shall be redeemed in any month in the year and not more than \$1,000 for any one party, firm or corporation. Five per cent more of the specie of the associated banks may be used thereafter if necessary. The contributions by the associated banks shall be a first charge against the assets of the failing bank and shall be made good on demand made by the examiner. If however the bank is found to be in a failing condition, the examiner shall take possession of its assets and have a receiver appointed, who shall first pay the amounts due the contributing banks and apply the proceeds thereafter to the redemption by the examiner of any and all of the notes outstanding of the said bank. This specie redemption is absolutely necessary in any system we may adopt.

The Republican politicians and the owners of national banks will holler wild cat upon the appearance of the first state bank bill and unless we organize victory in the beginning we had better not start out.

We come next to the bond deposit. The \$100,000 of the 4 per cent Alabama state bonds deposited in the state treasury as above, will amount principal and interest in twenty years, the duration fixed by our constitution of the charter of banks, to \$220,599. If the specie deposit is not impaired by a currency run on the bank, every note issued can be taken up at the end of the charter and a surplus of \$20,894 left to be returned to the bank, to say nothing of the burnt, lost or destroyed bank bills amounting at least in twenty years to 5 per cent of the issue, or \$15,000 more.

It is clear then that if the bank examiner does his duty and keeps the semi-annual coupons invested in interest-bearing securities, that the provision for the ultimate redemption of each and every bank note issued under the proposed plan is ample and complete. The great and only difficulty will be in the outset or very beginning of the issue of state bank notes. After confidence has been once fully gained as in the case of national banks, we will never hear of an application for a redemption of a state bank note. We see here the want of, and absolute necessity for a specie deposit as a factor of safety. The issue of state bank notes on the free banking plan or \$100,000 of notes on the deposit of \$100,000 of bonds without an arrangement for specie redemption would not last for a day or even an hour under existing circumstances in the United States. It is therefore futile and simply a waste of time to make such a suggestion. In anti-war times the free bank notes on bond deposits were the first to succumb in a panic. Their assets it is true sometimes, though very rarely, when sold redeemed all of their outstanding notes. But this was done years after the banks were declared insolvent and the notes were in the hands of speculators at a loss of 50 per cent to the holders of the bills. We want no such banks in Alabama. It is for this reason I have added another factor of safety, the bond deposit, to the specie requirement under our old state bank system and required both kinds of deposits to be placed in the treasury of Alabama and under the control of a state officer. The margin of profit

to the banks, I will admit, is reduced. The banker puts up two amounts of 8 per cent money and has to loan out three of 8 per cent money or has a 12 per cent money to loan out. This is a fraction better than under the national bank system, when for \$100 deposited the bank receives \$90 of currency. But he also receives the semi-annual interest on his bonds deposited. In any plan the interest remains with the principal in the treasury of Alabama as a redemption fund, or is paid out if required, by the examiner any time in redeeming the bank notes. My system will bear but little taxation or dead weights. I desired to have a reduction of interest to 6 per cent as one of the conditions. But there is not margin of profit enough to the banker to require this and require him also to arrange to redeem in specie at all times and at all places his currency notes. The details will appear in the bill.

A prominent banker in Montgomery, on detailing to him and others my plan, said in emphatic language "Dam it! why don't you leave the specie in the banks?" I asked him what for? He replied, "So the bankers could loan it out and not have this dead weight and loss of interest." I replied, "the fear that the bank would loan it out is the very reason I don't propose to leave it in the bank, for when your note holders wanted the specie it would nine times out of ten be out."

After the French revolution and the war of 1812 in the United States the nations of the world, England among the rest, began making efforts at redemption of specie payments, for years it was redemption to-day and suspension to-morrow, finally the following report was made by a parliamentary committee, and has been acted upon ever since in England:

"In a circulating medium we want something more than 'ultimate security' We want also 'immediate' security, we want security that is good today, and will be good to-morrow, and the next day and forever thereafter. This security is found in gold and silver, and in these only."

The suggestion made by me is simply that adopted by the Bank of England. The issue department there is separate and distinct from the banking department. The only difference being that in the plan suggested by me the issue department is not only separated from the banking department but is placed in charge of a state officer. This has been suggested as an

improvement on the Bank of England system. It certainly keeps the factors of redemption safe and out of any possibility of diversion.

In 1837 President Jackson's anti-bank measures ruined not only every bank but one in the United States, but every other thing of value in our country, including in the wreck the banks then run by the State of Alabama, and all the assets of said banks. The United States from 1837 to 1847, as far as a circulating medium was concerned, was simply a Sahara or burnt district. I was then a man of full age and stood upon the embers of desolation spread all over the land. There was no progress, no prosperity. It was simply a struggle for existence, no more, no less. The farmer went unkempt and unshorn, his wife and his daughters slipshod if shod at all. The running of locomotives on that part of the great Georgia Central railroad between Macon and Atlanta was abandoned and the cars drawn for a while with mules, soon also to be abandoned, and the track was overgrown with trees, some as large as a man's body. Under this condition of things the several states began the re-establishment of state banks of issue. In less than five years from 1847 the buds of promise and prosperity were seen on every hand. Women around Barnesville, Pike County, Georgia, where I was born and raised, who walked to church were seen riding in carriages. The school houses were enlarged and the churches were repainted.

Alabama is now, as far as home money is concerned, practically in the same condition as in 1847. Through the crop lien law alone, with its thousand and one agencies for squeezing and swindling the people, money comes here now costing all the way from 10 to 40 per cent interest. I do not wonder at the unrest of the Alliance or agricultural people of Alabama. Hundreds of bills are introduced annually into the United States Congress asking for monetary relief. Excepting only those allowing a 10 per cent increase in the national bank currency circulation, they have all gone into the waste basket, mine among the rest. The government will do nothing. The only way to get and retain money in Alabama is through some system of banks, state or national, whose domicile or home is in Alabama. One hundred thousand dollars of currency issued by a home bank in any city or town in Alabama and loaned out to

Dick, Tom and Harry, has their notes of hand in its vaults for the money loaned and in three, six, nine or twelve months, as the case may be, these notes must be paid with the same or as good money.

Of one thousand millions of green backs issued at Washington but very little would come our way, as the road to the West and North is too broad and too well beaten for it to come here except under some such swindling arrangement as the crop lien law. The American Congress had no right to tax state banks out of existence, but since they have taken jurisdiction of the subject before letting it go they should fix a limit of say \$10 or \$15 per capita of state bank issues and require that those issues should be redeemed on demand in specie or specie funds any and every where.

Please write me at an early date your criticism of the proposed plan as I have now only a short time to prepare a bill.

Criticism is invited.

JNO. T. MILNER,

CHAIRMAN JOINT COMMITTEE.

Address, New Castle, Ala.



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